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Item 9: Investment for development: Investing in the sustainable development goals

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Mobilising private finance for infrastructure
Myths and realities
Infrastructure is the backbone

Fundamental Human Right
Key Determinant of Domestic Investment Climate
Private Capital Providers

- Commercial Banks (International)
- Commercial Banks (Domestic)
- Pension Funds
- Insurance Companies
- Infrastructure Finance Companies
- Construction Companies
- Private Equity Providers

All have very different risk appetites and investment strategies
Role of Governments: Public Entities and Development banks

- Directly Finance from tax revenues
- Issues Bonds
- Offer shares of the project
- Provide guarantees
- Credit enhance
- Insurance, hedging or other financial instruments
Deploying Infrastructure is done through ....

• Public Procurement: public sector purchases the asset

• Public Private Partnerships
What are Private Public Partnerships?

Contracts or arrangements under which governments work with the private sector to:

- Capitalise or co-capitalise
- Design
- Build
- Operate
- Maintain

Public infrastructure and services
There are many choices in PPP arrangements ...

- Concession Agreement
- Build, Operate and Transfer (BOT)
- Design, Build, Finance, Operate (DBFO)
- Design, Build, Finance, Maintain (DBFM)
- Design, Build, Operate (DBO)
- Build, Finance, Maintain
- Operate, Maintain (O&M)
- Design, Build
PPPs are ‘risk sharing’ arrangements between public and private entities

Supply side
- Revenue and operations risks assumed by private partner
- Construction risks assumed by private partner

Demand side
- Financial and commercial risk assumed by private partners but with government guarantees

Legal, political, environmental, social and revenue risks assumed by public sector
Stages in mobilising private finance into infrastructure

Pre-construction deal structure: 10% to 30% of total project costs

PUBLIC MONEY

Construction Phase Debt/Equity

ECA, Commercial Banks, Private Equity Providers

Operations Phase Refinancing

Project bonds, institutional investors, IPO/listing
Key risks for the private investor:

**Devaluation:** US$ value of cash flows fall below debt servicing levels

**Convertibility:** Prevent currency transfers into forex and overseas.

**Uncertainties linked to future revenue streams:**
Bankability of infrastructure financing is based on future revenue streams. Data and expertise in forecasting notoriously inaccurate.

**Policy makers can’t orchestrate PPPs:**
Policy makers are not deal makers. A new mindset and skills set are needed.
Solutions to crowd in private sector

**Government:**
- Assume legal and political risks and also revenue risks when needed.
- Infrastructure development funds/project development funds/ viability gap funds
- Credit Guarantees
- Tweak existing instruments to reward ‘green’ infrastructure

**Commercial Banks:**
- Address asset –liability mismatch. Banks seeks to hold for 5 to 7 years. Construction projects needs longer time frames.
- More innovative ways to finance, aim to improve credit ratings for transactions.
Solutions to crowd in private sector

Development Banks and Export Credit Agencies:
• Country risk mitigation and deepen capital markets
• Guarantees
• Credit enhancement

Public entities:
• Improve credit worthiness, corporate governance, management capacity
• Address the issue of inefficient state-owned monopolies
• Improve local expertise to structure long term project financing
• Remove tax holidays in favour of lower but universal fiscal regimes
The infrastructure reality

- Bankability is based on future revenue streams/availability payments.
- When revenue streams are predictable and sufficiently large, debt financing is an option.
- When future revenues are not sufficiently predictable, the ‘gap’ can be closed by public funds or private equity.
- Debt gets paid on pre-determines schedules.
- Private equity takes higher risks and gets paid after debt servicing.
- This aspects of deal structuring deserves close attention.
The infrastructure reality

- Private investors will invest if minimum internal rates of return are big enough.

- Public agencies may need to give away large shares of future revenues to private investors, even if the equity stake is small.
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- Advisory and implementation services to Governments, International Organizations and Companies.
- Themes: water, energy + climate change, investment, public procurement and infrastructure finance, indicators.
- Offices in Canada, USA, Switzerland, China, Bhutan.
- MOU supported partners in 45 countries.
- Supported by Norad, DANIDA, SECO, SDC, CIDA, SIDA, UNEP, AusAID, NZAid, OECD, AFD, GIZ ...
- Third in the Financial Times/Foreign Policy ranking of influential think tanks.
- Advised 20 countries on Procurement and infrastructure finance
Thank you

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